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ABSTRACT

This paper analyzes in perspective the integration process through which Latin America, specially the South Cone, went through during the long formation process of the world economy, since the expansion that brought Latin America to capitalist development until the early XXI century. It emphasizes the 1980's, when a new form of integration begun, marked by trade and financial liberalization and an increasing market integration combined by the formation of trading blocks both in at world and regional levels. It studies deeper the special logics and the relations of South Cone as destiny of Spanish and Portuguese foreign direct investment. The article is structured in two parts: the first one analysis the Latin American integration process with the world economy since its origins, markedly the colonial period. The second part studies some results and disjunctives of this new period, characterized by the increasing presence of large multinational and Iberian companies in Latin America.

SUMÁRIO

Este *paper* analisa em perspectiva o processo de integração que América Latina especialmente o cone sul, foi realizando durante o processo longo da formação da economia-mundo, desde a expansão que trouxe América Latina ao desenvolvimento capitalista até o século XXI. Enfatiza os anos 80, quando uma nova onda de integração recomeçou, marcado pela liberalização de comércio e das finanças e por uma integração crescente dos mercado no mundo e a níveis regionais. Estuda mais profundamente lógicas especiais e as relações do cone sul como o destino do investimento directo estrangeiro espanhol e português. O artigo é estruturado em duas partes: primeiro uma análise do processo da integração de América Latina com a economia de mundo desde a suas origens, marcada pelo período colonial. A segunda parte estuda alguns resultados deste período novo, caracterizados pela presença crescente de companhias multinacionais e de grandes empresas Ibéricas em América Latina.

Keywords: modelo de desarrollo, macroeconomía, política económica, desarrollo, política monetaria, ética política, investimento

Classificación JEL: E0 ; E6

Introduction

This paper analyzes in perspective the integration process through which Latin America, specially the South Cone,¹ went through during the long formation process of the world economy, since the expansion that brought Latin America to capitalist development until the early XXI century. It emphasizes the 1980's, when a new form of integration begun, marked by trade and financial liberalization and an increasing market integration combined by the formation of trading blocks both in at world and regional levels. It studies deeper the special logics and the relations of South Cone as destiny of Spanish and Portuguese foreign direct investment. Under this aspect, the South Cone is seen more under an Iberian than under a European or exclusively an American view. The Iberians have therefore stepped aside the traditional logic by moving forward into a peripheral area outside the circuits of the Tried (USA, Japan and EU), oppositely from the other Europeans. This made possible an integration pattern, which is what results from companies and economy internalization in the global space. Besides this introduction, the article is structured in two parts: the first one analysis the Latin American integration process with the world economy since its origins, markedly the colonial period. This was followed by independence movements, during which local elites controlled export activities and the direct relation with the hegemonic capitalistic centers. In the XX century, this export activity created a domestic market and financed capital goods imports, making possible some cases of industrial capital formation. This capital accumulation transmutation, combined with the 1929 crises effects and the anti-imperialist disputes, provided a larger autonomy configuration, which was concretized in the import substitution model, exhausted in the 1970's. In the late 1980's, a new period of this integration process took place, this time based on "market solutions"; trade and financial liberalization and the transition of social ownership to national and foreign capital. These directives are registered in the so called Washington Consensus. The second part studies some results and disjunctives of this new period, characterized by the increasing presence of large multinational and Iberian companies in Latin America. Through the privatization process, they assumed control of the most important economic assets, integrating the Latin American companies under an accumulation logic based specially on the region's center. The singularity of South Cone compared with the whole Latin America is then distinguished. South Cone is predominating related through trade and investments with European Union, mainly with Spain and Portugal, the latter when foreign direct investments in Brazil are concerned. We analyses the logic of those Iberian investments, its volume and its composition, besides its meaning on the integration between the Latin America economies in the globalization dynamics. Finally, we consider its late presence and its importance as an accelerating element on the integration process based on the market logic, despite the fragility of the Portuguese economy, which is peripheral in the European Union but is capable of participating in the economical and geostrategic globalization of the services industries.

1. The integration of Latin America in the capitalist world economy and its recent transformations

¹ TN: The Southern Cone is composed by Argentina, Brazil, Chile, Paraguay and Uruguay.

Latin American economies integration history process started with the expansion of the capitalist European economies in the XVI century onwards. Trade relations made possible the creation of production mechanisms and the reproduction of political and social forms of capitalist economic organization. This enabled a fast cultural penetration, which conducted the South Cone countries into a production and cultural modernization in its western sense: formation of markets, free factors flows, appearance of entrepreneur class, diffusion of capitalist technology and organization, urbanization and the formation of the elite's tastes, preferences and habits. The export-related elite, symbiosis of Iberians nobleman and white Latin Americans, accorded special treatment abroad through trade with its metropolis – Portugal and Spain. This retarded the modernization process or limited it into the productive industries related to foreign consumption (raw material destined to the European elites industry or consumption, such as coffee, cocoa and sugar).

The political independence, consequences of the independence wars, did not significantly change this mechanism, although some very slow changes were registered. The independence actually enlarged this mechanism by market diversification, even though the liberal ideology of the independence leaders influenced most of the establishment thought. Once in government, this establishment slowly settled a new resources allocation that reinforced the capitalist organization, reproducing the European usage and habits, and then enabling a second interaction movement with European and North American post-Industrial Revolution capitalism.

The second European capitalist expansion, basically British but also North American, enabled the integration of Latin America economy with its global scale expansion through great companies - mainly in oil, copper, iron, cattle, grains – which created trade posts or bought factories. In order to accomplish it, logistic and communication infrastructure was financed and extended, state services such as the army were modernized and government debt was financed. As a result, this foreign capital built a strong influence in national politics, supporting some political and business groups.

This political control and the clash between European and North American companies are related, in some periods, to the warfare between Latin American countries, such as the Pacific war and the Chaco war. This process is interrupted by the 1929-32 depression and the Second World War, which enabled Latin American countries to establish import substitution. A previous exam of the continent's economic problems suggests that its economic history in the post-war period is characterized by recurrent episodes of vulnerabilities in front of economic shocks. The decrease in terms of trade of primary products just after the Great Depression was the basis for import substitution policies in the period between late 1940's and the 1970's. Latin American governments established then a development process in which national industrialization and market were very important, even though a strong link with capitalist centers was held through the import of capital goods and financial activities with the intention of catching up with the developed countries. The import substitution model, present in most Latin America since 1930's, was exhausted in the 1970's. In the 1980, Latin America became net capital exporter, because of foreign debt accumulation. As a consequence of this foreign exchange crisis, the continent's economy was forced into stagnation. The reproduction of prior growth conditions became impossible and Latin American standard of development could not be maintained.

This process caused divergent authoritarian and nationalistic movements in the political sector, which were related to the militaries and to the Church, and increased the power of landowners and the bourgeoisie. In spite of that, social classes were incorporated to consumption by populist and populist-democratic governments, which were based on new Christian and socialist political parties, on European ideas that combined with populist ideas demanding welfare and consumption, and on the long period expansion of the capitalist center.

The exhaustion of the so called import substitution process, a capitalist development pattern based on its own forces, was worsened by the oil prices rise of the 1973-74 crisis. From then on, Latin American countries were forced to finance its development in credit markets created with the resources that flowed out of the 1973-74 oil prices increasing, that decreased the international credit owners interest rate to level lower than the offered by institutions such as World Bank, IMF and IDB. Consequently, a large debt rising process went on without any defined criterion of expansion in the second half of 1970's, increasing the private debt component. The abundance of "petrodollars" in the 1970's international system, the petroleum crisis and the following international recession caused the Latin American debt crisis in the 1980's. The conditions of the "lost decade" were worsened in many countries by bad economic policymaking designed to create recessions and trade surplus. The political facts of late 1980's, specially the end of the soviet block, the effective way of paying Latin America's external debt services to the debt owners, the international thought favorable to a market based development, and the necessity of macroeconomic adjustments to stabilize inflation, fiscal expenditure, exchange and interest rates were condensed in the so called Washington Consensus. Besides being a way of guaranteeing the stable fulfillment of Latin America's financial obligations, the Washington Consensus were designed in order to engage the region into a new development pattern, in which the private sector ought to become more important and structural changes were supposed to take place. In spite of the fact that a decade had passed since the beginning of market-based reforms in Latin America, the 1990's crisis shows that the region's external vulnerability is still present.²

The magnitude of the 1980's crises may have also contributed to the dramatic change in the attention focus; the terrible economic and social conditions in the region had widened the political space for Latin-American governors, making radical changes politically possible. Policymakers started to realize that the state-based development model used in the previous decades had been exhausted. Chilean sounding success in the previous decade, the final crisis of State-based economies in East Europe and in the Soviet Union and finally the speedy growth of East Asian economies made the Latin American governments to adopt market-based reforms, such as: financial and trade liberalization, strict fiscal discipline and the privatization of state-owned companies. The modern development and the economic growth process Latin America was implementing started in late 1980's and were reinforced from then on. Based on the thought of North American development specialists, in early 1990's, after the fall of Berlin Wall, a list of economic policy rules became a unique "pattern" of the triumphant capitalist economy. A new consensus on economic policymaking was

² External shocks in vulnerable economies: a Prebisch reconsideration. Nancy Birdsall, Vice-president Executive, Interamerican Bank of Development, Carlos Lozada, Latin America Research Group, Federal Reserve Bank of Atlanta.

formed. It was a menu-list designed specially to orientate governments in developing countries and international organizations (MIF and World Bank) about the importance of the new orthodox economic thought for the former, which ask help to the latter. MIF and World Bank financial policies forced market and trade liberalization and deregulation in order to guarantee absolute freedom to foreign investments and to increase the production in export-oriented industries.³ The necessity of state-owned companies privatization and of open concurrence to broadly incentive the privet initiative was then proclaimed. These rules of the “sane economic administration” were perfectly codified by the international financial community, including the MIF, large privet international banks and business groups. It all consisted in decreasing the money multiplier index, gradually elimination of fiscal deficit, creation of a price system to deregulate the public sector activities, and a sustainable market liberalization to achieve free trade. In front of such an explicit codification of what was supposed to be sane policies, international reliability restoration required ultimately this policymaking implementation wherever economic policies differ from the economic orthodox thought.⁴

The paper includes ten topics on economic policies, among which, according with the author, “Washington” agrees. “Washington” means the political-economic-intellectual complex composed by the international Organizations (IMF and World Bank), the United States Congress, the Federal Reserve, the seniors of United States government administration and groups of experts. The topics under agreement were: budget discipline; changes in public expenditure priorities (from less productive industries to public health, education and infrastructure); fiscal reform in order to enlarge tax basis; financial liberalization, specially in the interests; search and maintenance of competitive exchanges; trade liberalization; openness to foreign direct investments; privatizations; deregulation; and guarantees of property rights.

From the point of view of the developed countries, specially the United States, this consensus formulation meant also a challenge: the fulfillers of measures to help developed countries in taking advantages of opportunities and in preventing problems in new market emergencies. To many people, the Washington Consensus seamed to mark a decisive period on world economic issues. On the moment that the dead-hand of state were been withdrew of Third World economies, the investors started to realize the great opportunities and benefit of these economies, the world became prepared to a large period of fast economic growth in countries that until then were poor, and to massive capital movements from North to South.

This new historical process of the modern world formation in Latin America can be analyzed through three points of view: i) the cumulative effort intensification with the earning of some collectivities in the center capitalist countries that reflects on the financial activity; ii) the widening of technological possibilities horizons opened by the microelectronics and iii) the increase of the population share with access to new consumption patterns and to esthetical influence originated by tastes and preferences

³ Morador, Mariana Wettstein. *El Proceso de Globalizacion Mundial*.

⁴ The [developing country's] policies must conform to certain rules. These rules of "sound economic management" are perfectly codified by the international financial community, including the International Monetary Fund (IMF), large private international banks, and business groups. They consist of reducing the rate of expansion in money supply, eliminating the fiscal deficit, devaluing domestic currency, deregulating prices and private sector activities, and opening up the economy to free trade. Given such an explicit codification of what constitutes sound policies, the restoration of confidence requires strictly abiding by them. In doing so, the economic policies acquire distinct orthodox flavor (Foxley, 1983, p.31).

diffusion, a process in which different forms of production and market segment are deepen.

Those tendencies are not three distinct phases but three interacted aspects in only one historical process. Without the technical innovations of that period, the revenue increase would clearly be limited. Besides that, the public purchase power enlargement is an essential element to the system reproduction, even though governments do not always regard this aspect, which is a flagrant of the repealing through which the keynesianism or intervention forms on the aggregate demand have been exposed. In the late XX century, there was a generalization of the thesis that market globalization process would be imposed worldwide, no matter what policies countries adopt. It was as if the world were in front of a technological imperative similar to the one responsible to the industrialization process that modeled modern society in the last centuries. However, market transposition and destruction carried on by current governments have been provoked great structural changes, whose effects are income concentration and great social exclusion. With the slider exception of Brazil, government's universalistic policies do not top these growing problems, which are been thought by some as the new form of growth whose characters are still not defined.⁵

In a Latin American historical perspective, during the 1970's a new model of economic policy was implemented pioneerly in Chile and later in the rest of South Cone. It was on the second half of the 1980's that a different development view was propagated to all Continent in the context of external debt negotiation. The negotiation was only one for all debt holders countries: the change to a better debt payment condition, which included deregulated markets, open economies, non-interventionist governments, and the radical deviation from every kind of autonomous and national development project. It seemed like a simple circumstantial change of a growth policy for an orthodox stabilization policy.

Lately it was realized that the stabilization policy were transformed from the old globalize utopia of liberal pattern into a new model o development offered to the peripheral countries in the world system. After that point, in the same way it was known in the XIXth century, the development promise and the hope for change in the power and money international hierarchy became depended on the acceptance of free trade rules and orthodox policies proposed or imposed by hegemonic powers, as in the old Victorian times.

In 1996, Tony Blair adviser on international affairs Richard Cooper published a small book entitled *The Pos-Modern State and World Order*, in which the strategic guidelines of this new Anglo-Saxon project to the world periphery were clearly defined. The author states the existence of a direct and necessary relation between the financial globalization process, the liberal economic policies of the previous decade and the project of a new kind of domination acceptable when human rights and cosmopolite values are regarded. Accordingly o Cooper, the hegemonic powers do not seek conflict among them, but are compiled to export stability and freedom to the other countries.

Three current world domination structures would come out of these hierarchic articulations. It would be a cooperative domination system, capable of regulating the relations between the Anglo Saxon world and the other developed countries. Its basis would be the decoordination, which is typical of the relation between honest countries

⁵ Furtado, Celso. "*El nuevo capitalismo.*"

and failure and pre-modern countries, incapable of protecting themselves in its own national spaces and dominion. It is also typical of voluntary domination in the world economy, directed by financial institutions such as the IMF.⁶ Designed for countries that admit the new aid theology, this domination emphasizes the governing capacity, aid and assistance to the countries that open themselves and passively accept the intervention carried on by international organization and foreign countries. In synthesis, it is an intra-domination project between world powers and the laissez-faire to every pre-modern countries in a free-market domination.

From the 1980's on, the world economy has been going through a transformation process characterized by financial deregulation and privatization of its main industries. Since then, globalization deepening can be seen in its trade, financial and productive dimensions. This process is mixed with the expansion of multinational and transnational companies, which acquired a concentrated financial importance, and therefore increases international liquidity and short term profits demand (Scherer, 1998). It should be regarded that in the studied case, the Iberian case, there is a certain "asymmetry" between trade and the ongoing investments, which assume independent trajectories.

The appearance of both emergent markets and a consensus on domestic market liberalization is articulated with an adaptation search for the neoliberal development pattern. This enables additional financial resources to the growth of new domestic market opened to foreign investments, in a new international insertion. The 1950's and 1960's capital flows toward developing countries were related to the financing of international trade. Those financial transactions financed real operations, which created official capital flows from both multilateral organizations and bilateral institutions that compensated shocks on terms of trade. Until late 1960's and early 1970's, with the appearance of eurodollars, the international private debt movement were directed toward Latin America. The foreign debt problem and the search for alternatives to it – specially the Brady Plan – originated debt and capital markets in the region.⁷

The reasons of this liberalization are founded in the fact that most of the countries that went through a strong recession in the 1980's and, in the following decade, applied macroeconomic stabilization policies searched in market economy a favorable approach over foreign investments. Through market-based solutions, in 1990's the Latin American countries adapted themselves to the new financial schemes resulted from the changes in the international world economic order. In order to understand the vicissitudes of Portuguese and Spanish investments in Latin America, this paper considers that macroeconomic picture, a new development scenario and economic growth perspective to the continent.

Bush era did not break or abandoned the project on a new domination acceptable to the human right issue. By contrast, when England and United States attacked Afghanistan and Iraq, they demonstrated themselves apt to apply the "law of jungle" to the pre-modern states. In several international or multilateral levels, these countries have insistently defended free trade, deregulation and opening of domestic economy in developing countries. The necessity that its governments accept international rule has been emphasized. Deals carried on with IMF and others international institutions have

⁶ COOPER, R. (1996), *The Post-Modern State And The World Order*. Demos, London: World Bank.

⁷ Graciela Mogueillansky (2002). *Inversión y volatilidad financiera: América Latina en los inicios del nuevo milenio*. CEPAL – SERIE Informes y estudios especiales No 3 División de Desarrollo Económico informes y estudios especiales

been designed this way when trade and foreign investments were regarded. This has been seen in WTO's Doha round, and most recently in September 2003 Cancun Conference.

On the other hand, in the global economic voluntary domination world, economic figures and data show without doubt that a catch-up process has not been taken place. Economic growth rate has been too low and income distribution has been getting worst in those countries that accepted and adopted the new aid ideology. Besides that, financial crises took place in Argentina, Mexico, East Asia, Russia and Brazil. In this early XXst century beginning, few still beliefs in the virtues of the policies advised by the "financial organism world consortium", led by MIF.⁸

In the complex of measures that characterize the transition toward this new development model, the industry and services privatization policy stands out. Its goals are the economic modernization on the basis of modern capitalism and the achievement of a deep development of the productive basis, for which the opening to foreign capital is considered essentially important. Latin America begins to face a third integration phase, which results from national bourgeoisie's desire to be incorporated in the worldwide capitalist expansion process, to participate competitively in industries and process that assure them as a minor associate. However, a national bourgeoisie's project can be miscarried at any point, and the issue on National States is not regarded as in some European countries, although the economic independence is an almost answered question. That is demonstrated by the Mexican case and trade agreements between Chile and United States and Europe. Brazil is an exception, for it tries to hold the idea about an own industrialization way, even though sectors of Brazilian bourgeoisie would happily accept the AFTA.

Market-oriented economy installation in Latin America has been gradually destroying all economical activities not only on products but also on services, such as healthcare, education, welfare, infrastructure and communication. A substantive part of social ownership has been transferred to domestic and foreign capital, which has been concentrating investments on its hands and reorienting economic activity toward the development of conditions capable of transforming these countries into primaries goods exporters and higher technology level industrial producers.

A deindustrializing policy led by the financial capital reoriented investments toward industries capable of constructing the basis to the so called non-traditional exports. At the same time, the economy was been opened to foreign capital in non-transnational goods. New exploitation on traditional resources were handled as concession or sold to foreign and national capital. The financial sector went through important alterations: banks and national insurance companies privatization; opening to the international financial sector; availability of new financial resources proceeding from social security system privatization and, above all, international privet finance.

Households have changed substantially theirs expenditure structure. Part of its available income had to be expended with healthcare, education - both of which were privatized - and a reasonable share of imported consumption goods - whose prices variable with changes on exchange rate and monetary policies. Companies that survived from monetary and financial shocks or from anti-hiperinflation economic policies were forced to readjust its demand according to world market. Minimum-state policies, that

⁸ Fiori, José Luis. "O Brasil na mudança mundial: espaços em disputa."

substantially limited government's social responsibilities, were accomplished under the finance orthodox sounding lemma and resulted merely in a subsidiary policy.⁹

National revenue distribution, its acquisition forms and public expenditure insufficiency heightened inequalities between domestic social sectors. Labor share of national revenue decreased quantitatively and qualitatively, whether because of real wage decreasing or because of an employment-unemployment movement. These factors limited the access of an important population part to traditional public goods, such as healthcare and education. Consequently, the traditional middle class, who had always supported traditional democratic regimes, went through an impoverishment and unbalanced process.

It is indeed true that this new development model caused a productive modernization project, which modernized every economic sector. However, it is always true that Latin American economies are more vulnerable to world economy's fluctuation and vicissitudes, such as changes on international demand, financial movements, and decision carried out by foreign capital owners installed in domestic traditional, new and financial industries. Above all, these economies' weakness is the deterioration on term of trade, trade balance and services balance. These cannot be avoided because of commodities over-supply in the world market and because of narrow efficiency margin, which force active exchange rate policy and especially foreign debt increasing.

The other economic integration side was the opening of Latin American economies to foreign companies and foreign financial capital. This has open space for a vigorous Iberian companies presence in the continent, especially if one regards service industries: banking, insurance, telecommunications and domestic services. There seemed to be a caravel returning after almost two centuries of absence. In order to analyze this Spanish and Portuguese presence, one must study geographic localization factors, quantify figures and identify agents. To understand in what extent this foreign investments wave modernizes Latin American economies one must establish evaluation criterions. There is no possibility of national development in the patterns of the capitalist world economy; it simply cannot be possible for every country. As a world system, capitalism is naturally polarized. The center, the periphery and the distinct social formations that share the world system are not simply unequal developed formations, but interdependent formations in this inequality. Capital accumulation process requires a hierarchic system in which the surplus is unequally divided when both space and social classes are regarded. Historically, capitalist development has generated and required a growing socioeconomic, geographic and demographic polarization.

After the lost decade, during the 1990's a new economic growth process took place, along with trade and financial liberalization. Companies that survived increased their competitiveness, specialized their activities, used their comparative advantages and begun an internationalization process in regional and world level.

This process has generally led the Continent toward a low aggregated value specialization pattern, which pushes its economies into an increasing search for

⁹ 1930's polemic between Treasury members and non-Treasury members, among them Keynes, can be seen in CWJMK, Vol. XIX e XX, Macmillan, 1971. Subsidiary principle is Public Choice answer to Keynesian fiscal policies. This can be seen, for example, in G.C. Peden(1988), "Keynes, The Treasury and British Economic Policy", The Economic History Society. -(1983), "Sir Richard Hopkins and the Keynesian Revolution in Employment Policy, 1929-1945, Economic History Review, 36(2), pp. 281-296. -(1980), "Keynes, The Treasury and the Unemployment in the Later Nineteenthirties, in John Cunningham Wood(ed.), "John Maynard Keynes: Critical Assessments", Croom Helm, London & Camberra, 1983, Vol.I, pp. 564-580.

investments and exports financing, in order to guarantee external counts balance and to accomplish industry restructure. Besides that, imports increased, which allows one to conclude that world economy integration is processed through companies that trade, invest or participate in investments and that consume imported goods at a unique level. The way toward modernity requires not only durable and capital goods imports, but also consumption goods and services imports likewise in Europe and United States. If the last centuries expansion process integrated a small share of population, this new process goes beyond social instability, unemployment and labor market precariousness. This time, larger middle class sector integrate in world economy, whether by the larger companies services in Latin America, or by consumption levels equal to the ones in Europe and the United States. In either way, this leads to a different social segmentation, marked by the appearance of poor areas, new riches and old political actors in new positions – like the army and the Church. A relative balance between winners and losers is, thus, required.

2. South Cone: Iberian investments and its dynamics in the new international order

2.1 The Iberian logic and some disjunctives

One must take into consideration different dynamics that interacts simultaneous when integration and capital internationalization process are regarded. Under this perspective, there are a couple of integrations. The first one responds for the center to the periphery. It is lead by transnational companies and can be characterized by intra-industry integration toward the world and/or the domestic markets. The second one is originated in the periphery's search for integration. It can be regarded if one takes into account productive chains where related companies, whether domestic or foreign, act articulately. The former is the case of foodstuff, automobile, textile and other industries.

An evaluation of Iberian companies investment process under an institutional logic suggests that a new kind of integration is under action since the 1990's. This article is interested in bringing into evidence those aspects that present economic integration modernization in the globalization process in Latin America. We are convinced that a new phase of this integration is on process, and that it requires a larger interaction, such as the panamerican project of AFTA and the autonomous and not well formulated Brazil-Argentina industrial project. The latter aims the participation of both countries in the capitalist expansion in order to increase their population welfare and narrow the gap between developed and developing world. In this cense, the Iberian companies replace economically part of the state's role, and therefore acquire a large political importance in the society by integrating itself with the state through legal contracts regulation terms, specific services obligations and industry regulation necessary to guarantee tariff regimes that enable access to the whole population to such services and welfare.

Foreign direct investment flows have traditionally been associated with a number o benefits to developing countries. It is stated that those investments enable the inflow of new technologies capable o increasing the receiving country's efficiency level. Many authors have defended the existence of externalities, which causes positive affects not only to the receiving investment company but also to the other domestic companies, in a systemic process. Some researches bring evidences that partially support these hypotheses.

The most recent empirical research on the relation between economic policy and growth rates was based on a 1991 paper of Barro and Barro's specifications (a

empirical model based on the standard neoclassic theories on growth). According to this model, growth rate differences between countries are caused by differences on real income per capita and the income level per capita. Most researches contain an investment of revenue index, which is a sort of human capital and population growth measures.

Besides these three variables, one can think about three classes of variable that can affect income level in different countries: structural differences between countries; exogenous factors such as export markets changes responding to time but not to countries and their policy variables. In most research on the subject, this latter variable system is used to estimate impacts in policies growth or changes in policies, macroeconomic reforms and structural reforms.

Loayza and Montiel (ELM, 1997) is a good representative example of latter research that tries to measure econometrically the impacts of reforms and other variables. They used a world chart of 70 countries, to each one a 5-observation chart was created based on the 1961-1993 term. Several parameters were added to the regressions in order to measure the impacts of structural reforms in Latin America growth and to determine the latter reform effects in the continent economy. Some of the parameters are: legal and illegal market changes; money as GDP quotient, in order to regard financial liberalization; inflation and government consumption; and investment coefficient on GDP, in order to regard not directly measured reform effects.

In these researches, reforms mean basically macroeconomic policy reforms, which are different from the so called structural reforms, such as trade and capital liberalization or privatization. This distinction is stated by Fernández-Arias and Montiel (1997).

According to this research, the macroeconomic policies of the latter years have aggregated 1,3% to the average growth rates and the structural reforms have aggregated an additional half of this figure. They conclude that Latin America have not gone through a more intense growth process because reforms have been implemented in an international scenario which were relatively not favorable. As a final conclusion, they state that in order to achieve higher growth rates in the long term, the region must not only intensify but also widen structural reforms in process.

Lora and Barrera (1998) used an index system on reforms developed by Lora (1997) to estimate the structural reform's effects on the region growth. They came out with a standard growth model with a 19 countries crossed chart combined with the observations of a PROMEDIO on the period starting in 1987. The results show that 1,3% of the growth rates are caused by structural reforms.

Sala and Martin (1997a, 1997b) propose a less rigorous alternative that runs on a structure base composed by the 63 possible variables that have been used in the literature. After running three variables that appear in most research (initial revenue and two human capital measures), it combines the variable with every possible combination of the other variables arranged in groups of three. It then calculates the density cumulated function (DCF) to every variable. Each one of the regression results appears separately. A variable is significant if its DCF is greater than 0,95. According to this criteria, the most significant variables are investment in capital goods, years during which the economy has been opened, distance from the equator, higher exports, and several political and sociological variables. One must note that none measure on government expenditure, inflation, financial restriction alternatives or tariff sophistication have been regarded as most significant. As an operational difficulty with

this procedure, Sala and Martin have considered separately around two thousand to four thousand regressions to determinate the regressors of the 63 variables.

Ley and Steel (1999) investigated the application of incertitude in a cross-country regression model as a bayesian approximation with not most evident results. At last, on a Cepal paper, Escaith and Morley (2000) measure the impact of trade, capital account, financial reforms and privatization in growth. The results surprisingly imply the conclusion that impacts of these different reforms cancel each other. Even though human capital formation and education level increased, the results clearly confirm the importance of macroeconomic stability.

Foreign companies present much greater productivity levels than domestic companies, and foreign direct investment effectively contribute to higher productive level achievement by companies. It has actually a positive effect over productive growth rate. However, its quantitative impact seems to be small. The results confirm the potential of externalities on the productivity level, but there seems to be no significant effect over productivity growth rate.¹⁰

This phenomenon raises questions about foreign capital impact over the economy, especially because the literature suggests the existence of several benefits to countries that receive foreign direct investments. The greatest part of foreign direct investment flows can contribute to increase economic growth in developing countries through three mechanism: (i) capital stock increase, and consequently the increase of the economy's productive capacity; (ii) greater foreign exchange inflow that helps to lighten foreign unbalances and, therefore, attenuate its harmful effects over growth; and (iii) transferences of new production, marketing and administration techniques, which contribute to the economy's overall productivity (Romer: 1993).

There is empirical evidence of this when the aggregated level is regarded. Borensztein, De Gregorio and Lee (1998) studied the effect of foreign direct investment from industrialized countries in 69 developing countries. It came out that these investments affect positively the receiving countries' economies. Besides that, they conclude that these positive effects can only be internalized if those economies have a minimum human capital stock.

Several researches with companies' figures have approached this topic, some of which found out appositive relation between foreign direct investment and productivity on the companies level. Caves (1974) and Globerman (1979) have shown that in Australia and Canada domestic companies are more efficient in those industries where multinational companies are present. Blomström (1986), by its turn, studied Mexican factoring companies performance between 1970 and 1975. He concluded that foreign capital presence affects positively companies' efficiency levels. In the Mexican case, Bloström and Wolff (1994) found out that foreign direct investment has a positive and significant effect on productivity growth rate. It is then asserted that foreign direct investment can generate externalities to all domestic companies. According to it, a greater foreign capital participation in the economy can not only improve the receiving company's performance, but also the other companies' performance too, since those can be favored by knowledge and technology spillover contained in these capital flows.

¹⁰ Roberto Alvarez, INVERSION EXTRANJERA DIRECTA EN CHILE Y SU IMPACTO SOBRE LA PRODUCTIVIDAD, Department of Economy, University of Chile.

In relation to the existence externalities or knowledge spillovers, evidences about the benefits of foreign direct investment to domestic companies are not conclusive. On this issue, Haddad and Harrison (1993) have studied spillovers in Moroccan factoring companies between 1985 and 1989. They conclude that there are no evidences of spillovers in those cases. Aitken and Harrison (1999) use panel data on Venezuelan factories between 1976 and 1989 to conclude that foreign investment effect on the company's productive is positive, although it decreases domestic companies' productivity. At last, Djankov and Hoekman (2000) found out that joint ventures and foreign capital participation generate a negative effect on productivity of companies with no foreign owners. In the case of Chile and other Latin American countries, one can note that these economies received heavy foreign capital inflow 1990's and, besides that, registered growth rate higher than their historical average.

Many research partially support the hypothesis on productivity and externality effects. Foreign companies present much greater productivity levels than domestic companies, and the participation on foreign direct investment helps the latter companies to improve it. However, its quantitative impact appears to be small. The results confirm the existence of potentialities and externalities in the other companies, but there seems to be no significant effect on growth rate.

This paper can then disregard that foreign direct investment inflows are associated with dramatic changes on productivity growth in Latin America economy, especially when in South Cone economies.

The expansion period that follows early 1980's crisis intensified corporative international concurrence and brought about significant aspect of competitively globalization, whose effects can be regarded through the dimension achieved by fusion and acquisition process, specially in United States, Europe and Japan. Technology changes caused by the development and fast diffusion of microelectronic, together with its applications in computing and telecommunications, not only impelled productive transformations but also expedited financial globalization by making the transmission of great amounts of information cheap and instantaneous. The improvement of greater international information disposition about the supply of goods and services favored the globalization of demand, which, by its turn, promoted both global expansion of supply and concurrence intensification. It does not only refer to the appearance of new economic spaces, in which companies compete based on scale to create and increase its market share through tradition elements (prices, quality, distribution, assistance etc). A profound change in both the productive system and the competitiveness determinants takes place. This is pushed by two forces: technology changes and innovations on production organization, which implies new product and process technologies and new forms of management. The characteristic of both inter-companies and intra-company relations are changed, for the system's concurrence privileges as main characteristics flexibility, quality and cooperation. This is part of a process that establishes a strong link between flexible technologies application in factoring production and forms of organizing the productive process.

Competitiveness globalization put into movement fusion and acquisition processes and liberalization of new enclosures of industrialized countries' economies. The latter happened especially in some services segments that went on privatization process and enabled foreign direct investment expansion in these industries, mainly in financial industries. With the greater international coordination of macroeconomic policies from

the 1980's on, the decreasing of oil prices and improvement on growth expectation, multinational companies adopted a strong international concurrence strategy, whose goal was to wider and to consolidate their participation in most attractive markets. This strategy increased market concentration in foreign direct investment's both outflow and inflow economies, respectively the industrialized and the developing countries. Latin America is highlighted in this process as the third greatest investment-receiving region, above the triode countries – Europe, United States and Japan – and very close to Asian countries.

The Iberian companies brought to Latin America a specific group of attributes, different from those that had characterized foreign investment. North-American, European and Japanese companies have traditionally integrated industries, according to an intra-company logic and/or to a foreign consumer vinculum logic. Effects on productivity are either restricted to industries where those companies operate or scarce. They do not contribute to competitiveness increasing and are located in differentiated enclaves. These effects does not require much qualified labor and do not stimulate research nor development projects, except in cases in which there is an emphasis on domestic market, as in the automotive industry. Multinational companies attract less qualified labor, nevertheless generally pay higher wage, and then create higher demand, usages, habits and custom related to the center.¹¹ Given the high capital concentration and its monopoly power, multinational companies have generally imposed its interests before states and power in the receiving countries.

The new foreign investment wave, moved on by Iberian companies, has different characteristics relatively to those before it. Both were capable of modernizing less productivity industries, such as services. By doing so, they could improve productive services in general, including non-integrated industries, such as building, healthcare, financial services, insurance, tourism etc.

In the 1990's, especially after 1995, Portuguese companies' investment in Brazil achieve an important dimension. After 1996, Brazil overtook Spain as the main destiny of Portuguese foreign direct investment. Since then, Portugal stands at a higher position as foreign direct investor in Brazil.

We assert that the tendency of these Portuguese foreign direct investments is part of an Iberian logic, which begun in the 1980's, with a Spanish strategy in Latin America, specially in the South Cone – Argentina, Brazil, Chile, Paraguay and Uruguay. According to this perspective, we synthesize the singular aspect to this Iberian logic in three predominant aspects, which are be exposed in this paper.

The first characteristic is that, differently from the Triad countries, Portugal and Spain address most of their investments to countries that are not part of the Triad or, in a broader cense, are not part of OCDE.

The second characteristic is related to investment's profile. It is located predominantly in services directed to domestic market and, therefore, which operate with non-tradable goods.¹² This is translated through social integration, as global consumers, of some population segments in the capitalism world.

¹¹ Once the Chilean case is referred, until the 1960's, when the "Chilenization" of cooper begun, supervisors were generally from United States. From then on, they were replaced by Chilean engineers who used to work as subordinators. En el caso chileno hasta los años sesenta cuando comienza la chilenización del Cobre, los supervisores eran por lo general de origen norteamericano, siendo substituidos posteriormente por ingenieros chilenos que ocupaban posiciones subordinadas

¹² There is actually Portuguese-Spanish cooperation between phone companies and in a electric energy company. This is surely a dominant tendency.

Finally, the third Iberian investments characteristic is that they are addressed to countries that speak Iberian languages and are culturally related to Iberian countries. This implies important synergies, such as language, which decrease transaction costs and make other positive but not so visible factors possible, such as reliability, friendly ship and historic heritage. There is an entire literature on transaction costs minimization as a common token and, analogously, communication costs through a common language [Ramos Silva, 2000].

The demand for foreign investments is an answer of emergent markets to this concurrence in the world process. It represents an attractive to trade and foreign investments, and is previous intervention object by the leading countries: United States, Germany and Japan. In the 1990's, there was a strong Spanish and Portuguese intervention, which was much more Iberian than European if investments are regarded. It means that, when internationalization process of Portuguese and Spanish companies are considered, one can see that Spanish investment are mainly directed to Latin America, while Portuguese investments are directed to Brazil.

Foreign investments have been located in fusion and acquisition process of already existing assets, especially in the following industries: financing (banks, insurance companies, retiring funds), telecommunication, energy, transportation (production, distribution, flying companies) and others such as services, trade, urban residues treatment and tourism. Companies from Europe and United States have played the main role in this process, which was based on public companies privatization and private companies acquisition in most South Cone countries.

European, North American and Japanese investments are per se almost the whole foreign direct investment in South Cone, and investments in other regions of the world or intra-region investments are exiguous. South Cone countries concentrate almost half of European and North American investment in Latin America and the Caribbean, and more than 80% if only Japanese investments are regarded. If one considers Chile, Mexico and the Andes Pact countries, a great deal of the investments are directed toward the most developed countries in the region. This is simply because the most developed countries are the ones that most rapidly intend to withdraw concurrence and labor division advantages in the new strategic international insertion process. Since late XIXth century, these countries had gone through a previous capitalism development, with a dynamic exporting sector and a forming domestic market, which enabled financing of capital goods imports.

Latin America: Capital Flows

	1970	1980	1990	1995	1998	1999	2000
Total (US\$ billions)	4.2	29.9	21.8	75.4	142.6	116.5	102.4
Official flows	1.0	5.3	9.2	12.6	12.3	5.2	0.4
Privet flows	3.3	24.6	12.6	62.8	130.2	111.3	102.0
Foreign direct investment	1.1	6.1	8.2	29.8	72.1	90.4	76.2
Investments in portfolios	0.0	0.0	1.1	7.6	1.7	3.9	9.9
Bonds	0.1	0.8	0.1	11.5	18.3	19.1	11.0
Commercial banks and others	2.1	17.7	3.2	13.9	38.1	-2.0	5.0
Total (percentage)	100	100	100	100	100	100	100
Official flows	23.2	17.7	42.1	16.8	8.7	4.5	0.4
Privet flows	76.8	82.3	57.9	83.2	91.3	95.5	99.6
Foreign direct investment	25.8	20.5	37.6	39.5	50.5	77.5	74.4
Investments in portfolios	0.0	0.0	5.1	10.1	1.2	3.3	9.6
Bonds	1.3	2.7	0.5	15.2	12.8	16.4	10.7
Commercial banks and others	49.7	59.1	14.8	18.4	26.7	-1.7	4.9

Source: World Bank, Global Development Finance 2001

The amount of Spanish investments in Latin America has increased since the 1980's. It has been benefited by the favorable international conjuncture and by the reinsertion process of Latin America economies, which were seeking foreign financing to their exporting sector, to theirs industry restructuring through privatization and to balance their foreign accounts. These were done accordingly to the liberal model of market economy installation: decreasing the role government had traditionally had in those economies (Zapata: 1999). A significant part of this phenomenon is explained by the aggressive role of Spain, with the important contribution of Portugal.

In a broader cense, foreign direct investment in Latin America assumed four basic characteristics in the 1990's (CEPAL: 2000). First, it rose quickly, from US\$ 6.758 billons in 1990 to US\$ 70.275 billons in 1999; second, it concentrated in a few countries; third, it was quite flexible in face of international financial crisis, for it increased significantly while international flows of other kind decreased; forth, two thirds of it consisted in purchasing of already existing assets.

The slow recuperation after the debt crisis, financial fragility of states and economic stagnation gave place to a new conception on development pattern from the 1980's onwards. This was the first element to support the opening of Latin American economies to foreign capital through the selling of strategic industries in the domestic market. Spanish investments in Latin America went a long way through possibilities created by the opening to investments, corresponding to an insertion strategy that had been designed since the 1980's. Spanish investments summed up US\$ 1.037 billons in 1995 and US\$ 5.653 billons in 1998 (it summed up US\$ 1.969,7 billons in the late 1980's, US\$ 3.288,5 billons in 1990, and US\$ 6.511,7 billons in 1991) (Arahetes, 1996,5).

Spain invested heavily in service industries during the 1990's, moving forward its 1980's investments. The most important industries are transportation, communication, urban infrastructure, oil and energy, banking and insurance. Although investments were

strongly concentrated in those industries, Spanish capital were also invested in agriculture and tourism, that do not represent much of global Spanish investments but are very significant to Latin America countries, for it support non traditional exports of foodstuff, fishing, tourism etc.

As a characteristic, those investments are carried on by small number of banks and companies, such as Bilbao Bank, Vizcaya, Argentaria, Santander Hispano Bank, Endesa, Repsol and Telefónica. Spanish companies lead acquisition processes in all Latin America, and large companies control a reasonable share of several industries such as communication, energy and financing.

From the second half of the 1990's onward, Portuguese investments started an important move in the approximation process between Portuguese and global economy if international capital formation is regarded. A new period of large investments in Brazil took place. Together with Spanish capital in some of Endesa's and Telefónica's business, Portuguese investments have presented some of the characteristics verified with Spanish investments. They are located almost exclusively in Brazilian industries of delimited intervention, such as trade, urban infrastructure, financing services and telecommunications, which constitute these investments' core. That is, Portuguese capital was invested in services that operate in the domestic market, especially in the South Cone. Likewise Spain and differently from European logic on trade, Portugal insisted on its natural advantages by choosing Latin America, and particularly Brazil, as the main destiny of its investments, as possibilities appeared with privatization process in Argentina, Chile and other countries. Most Portuguese investments abroad are in communications, financing, and housing industry (see chart).¹³ Brazil was the number one destiny of Portuguese foreign direct investment between 1998 and 2000,¹⁴ in a tendency that started in late 1990's with the acquisition of Telesp Celular of São Paulo, in 1998.

The amount of investments increased 20 times in only five years, increasing the pace of investments carried on by the large Portuguese companies, some of which were privatized in the 1990's, or privet groups created in the 1980's market economy, with dimension, capacity and financial power to compete in developing markets. The general tendency of these investments begun with privatization process and were prolonged with modernization and restructuring process in companies.

Accumulated investments summed up US\$ 6 billions already in 2000, which is equivalent to 5% of the Portuguese GDP [Bank of Portugal, 2000]. It is true that a considerable part of this investment came from Portugal Telecom, which operates in all seven Portuguese-spoken countries and acquire CRT and Telesp Celular. Portugal Telecom has reach an agreement with Telefónica on Telesp Celular through a joint venture created by the two Iberian companies, in an Iberian interchange logic on participations, which also includes assets combinations held by Endesa and EDP in other countries. The same can be said about the agreement between Telefónica and PT in Morocco, in which both companies act together in the acquisition of a cellular phone network. The other 25% of the investments are applied in banks (CGD), supermarkets, wood pulp and laminate (Grupo Sonae). In 2000, Portuguese investment distribution in Brazil gathered a group of companies in the Portuguese market, such as Mello Bank,

¹³ The representing percentage varies from one year to another exactly because the investment profile. Since it is basically companies' acquisition, the investment pace depends on the privatization process pace.

¹⁴ The figures illustrate well the profile and the logic of Portuguese investments in Braziland, by other side, in Spain.

BES Group, CGD, Pestana Group, EDP, Cimpor, Somague, GJM group, Brisa. However, one cannot ignore the fact that the larger share of those foreign direct investments are owned by PT and Sonae, respectively in the first and second place.

This investment process contrasts with the weak flow toward Central and East Europe, which increased a little. This also contrasts with the weak Portuguese investments flow toward Africa, which are low compared with the general investment level, but represents a very high share to the PALOP (African countries that officially speak Portuguese).

2.2 Portugal insertion in Europe and in the world economy and the reasons for investments in Latin America

Social and economical asymmetries between Portugal the other EU countries have been decreasing since the 1950's. On the other hand, a greater trade and financial performance became possible since 1986, when Portugal and Spain joined the EU. Nowadays Portugal is in the more ambitious process of being part of a National States federation, which includes border abolition and the replacement of national currencies for the Euro, EU's symbolic and economic expression. This is the end of the remaining trade barriers and monetary, fiscal and trade independent policymaking, which will be replaced by European macroeconomic policymaking. This process' originality is the absence of existing models to be followed. It is the construction of a political engineering projected with a supra-national institutional horizon.

The path to Euro was based on "convergence criterions" expressed in the Maastricht Treaty, which defined some very well known exigencies. Each member-state's macroeconomic data and tendencies had to point at a convergence level based on price stability and necessary presumptions for a common currency, without risking macroeconomic policymaking at the supranational level. Portugal successfully fulfilled those convergence criteria. However, this issue must be analyzed under the perspective that harmonization costs may increase asymmetries in terms of real or structural convergence compared to other UE members. Economic, political and historical issues are relevant on this matter, for according to Europe's internal spatial logic, Portugal, much more than Spain, is out of the UE's core, which is composed by the arc London-Milan, that is, from Southern England to Northern Italy (Durand, 1992).

Without disregarding differences narrowing, one must note that economic structure, company pattern and human resources' quality put the Portuguese economy in a fragility/vulnerability situation and limit its competitiveness and its international insertion in face of European pattern. One cannot forget that Portugal did not take part of the innovation cycles of the first and second Industrial Revolution. Therefore, Portuguese industrial capital formation was retarded. It took place when technologic and financial barriers were already established at the international level. Until mid-XXth century, Portuguese industrial structure was composed by wage-goods with low aggregated value, directed mainly to interregional market. Portugal exporting capacity was limited to some few primary goods.

In the second half of the XXth century, Portuguese industrial and service segments became more dynamic. Portugal was then incorporated in the post-war expanding cycle, which enables the spillovers of technology process, products, management and science-technologies. Even though, there was no initiative in innovation at the national level, which is the ultimate factor responsible for sustaining the competitiveness in the long term.

A map on the competitiveness “hard core” of Portuguese industrial exports, which correspond to 80% of total in 1996, shows the following composition:¹⁵

Competitiveness based on costs: textile-leather (31%) and wood, furniture, ceramic and glass (8%);

Competitiveness based on natural resources and/or scale economies: cellulose and paper, oil refining and non-metallic mineral products (8%);

There is also the beverage industry (3%), which is a decadent industrial cluster associated with natural resources. However, in recent past the electro-electronic cluster increased, based on human resources with higher qualification than the average in the transforming industry. This new cluster is composed by electric machine (12%) and transport equipment (17%).

Portuguese industry’s specialization presents severe fragilities, which can be detected if a conjunct of wide-used criteria are taken into account. These criteria are: current and expected evolution of world demand; development of recurring ex-ante to the exporting structure; the direction of national competitive production of goods and equipments; installed activities vulnerabilities before foreseen deregulation of the European and Supranational markets (Lança: 2000,33).

A compared analysis on EU member’s figures and trends (European Communities, 1999) shows that, regarding transformation industry in 1988/1998, Portugal is among the countries with higher aggregated value increase (together with Austria). Its average annual growth reaches 6,7%, which is a lower figure only if compared to Ireland’s 7,9%. This growth results from the expansion of automobiles and electric devices industry. One must point out that Portugal was the only country that presents retrogression trends on production specialization and exports of domestic comparative advantages. That is, there was a relative retrogression in textile, foodstuff and wooden products industries. Spain, on the other hand, is the third on the same ranking and corresponds to the eighth position with an annual average growth of 3,6%, which is also higher than EU average (2,9%). However, there was no significant change on the production specialization or on exports.

This analysis referred to Portugal is promising, since it responds to a determined conversion in industrial structure linked with the participating increase of higher aggregate value industries. Nevertheless, most of these inversions are part of transnational companies’ strategies and, in this sense, are quite vulnerable, once they do not imply concurrence struggle. With insufficient on labor’s qualification and technological and concurrence structure, negative externalities can prevail and give place to dislocation, which are a not depreciable risk. This is especially true if one considers the expansion toward East, whose economies represent a lower direct and indirect costs alternative and counts with higher labor qualification (Guedes, 2001).

Under this perspective, it is important to point out that the whole conjunct of the Portuguese industrial companies does not count with strong aspects that could enable its competitive international projection. It is for this reason that this possibility is limited to the service segments, as verified in the 1990’s. Another limiting aspect is the dimension issue: not only the Portuguese market is small to any expansion carried on by domestic companies, but also these companies are not strong enough to become

¹⁵ To a analysis on Portuguese industry competitiveness, see Lança (2000), who studies Portuguese exports profile. See also a compared study on European industry competitiveness (European Communities, 1999).

global-players. Consequently, Portuguese companies must formulate selective strategies and/or cooperate with other companies in order to maintain their independent strategies. For these reasons and for some domestic factor, Brazil appears as an alternative to Portuguese investments, likewise Spanish investments in Latin America, specially the South Cone, since the 1980's. The latter aspect refers to the internal logics of the American continent and deserves some references. In analysis on Latin America, the perspective of the whole is predominant, and for this reason particularities of Latin American countries and even subcontinents are seldom regarded. That is the case of the South Cone, which is composed by Argentina, Brazil, Chile, Paraguay and Uruguay.¹⁶ These economies sum up a GDP close to US\$ 1 trillion, which correspond to 60% of the Latin American GDP, and have a potential market of 210 million people.¹⁷

At a more abstract level, one can naturally identify a historical and cultural common origin and, likewise, several economic and geopolitical conditioning present in Latin American countries that enable Iberian investments receiving. However, at a more concrete level and along with different national trajectories, disparities are significant and do not allow a non-differentiated analysis.¹⁸ One can sum up asserting that the South Cone and the MERSUR constitute a distinct reality, since the United States are not these economies' main partner. Their trade and financial links are mostly with the EU, with which a "Cooperation Inter-regional Agreement" was sign in 1995. The implementation of a program on reciprocal trade flows was then considered. One can though take into account that Brazil and Chile have significant trade relations with East Asia.

If intra-regional trade relations are concerned, there are greater activities in the South Cone than in the rest of the continent. Besides that, during the 1990's, MERCOSUR's total trade flow increased from US\$ 4,1 billions to US\$ 20 billions, which correspond to a growth rate relatively superior than those verified in the world economy. Trade relations between MERCOSUR and abroad also increased, even though at a smaller level. Summing up the considerations above, MERCOSUR conditioning with USA economy is smaller than the one with the EU and the complementarities between the MERCOSUR countries are greater than between any others Latin American countries. Taking the American continent into consideration, one can verify that the closer countries are to the United States, the greater North American trade and investments flow are relatively to the rest of Latin America.¹⁹ Mexico, for example, has recently replaced Japan as the second larger trade partner with the United States, before Canada. Total trade flows between Mexico and the United States reach about 85% of global Mexican trade. In a less aggregately cense, Mexican most important trade industries are

¹⁶ The Common Market of the South (MERCOSUR), created in 1991, is not composed by Chile, even though that country is an associated member since 1996. Bolivia is in that same position since 1997. As far this paper is concerned, discussions and implications about the Southern Cone are also related to Chile and Bolivia.

¹⁷ MERCOSUR's GDP decreased significantly since 1999 because the depreciation of Brazilian real. Brazilian economy is to more than two times larger than the other economies together. For economical and demographic figures on MERCOSUR during the 1990's, see the website of the Statistical and Geography Brazilian Institute (IBGE): <http://www.ibge.gov.br>. This source is actually called "European Community – MERCOSUR Statistical Cooperation Project", which includes Chile. Two aspects stress our perspective. The first one is EU's effort in disposing to MERCOSUR countries its experience on statistical harmonization, which were carried on by National Institutes of Statistics networking in the Eurostat. Second, the inclusion of Chile proves the interest and comprehension of the Southern Cone as a privileged part of UE's economical diplomacy.

¹⁸ To this paper's goals one must first regard not only the nature of Latin American financial and trade links, such as the Triade, but also intra-region relations.

¹⁹ To studies on figures about the composition of trade of goods according to categories and destinies in all Latin America and the Caribbean, see Cepal, 2001. To an analysis on differences of competitiveness per country, industries and companies, see Mortimore and Perez, 2001.

the oil industry and the Exporting Maquiladoras Industries (IMEs). The latter respond to the export processing zones, where United States investments are virtually absolute. Almost half of Mexican industrial labor works in IMEs.

Therefore, when relation between UE and Latin America (trade and investments) are concerned, one can assert that the South Cone is a preferential partner. This paper sustains that, in the 1990's, European presence in the South Cone assumed a determinant Iberian logic. The relation between financial situation of Iberian larger investors (Telefónica and Portugal Telecom, for example) and the South Cone economies performance shows how much the Iberian economies are linked to the South Cone. These companies were affected not only by the Argentinean peso crises in 2001, and its effects in local financial markets, but also by the continuing South Cone's currencies devaluation, which affected local demand and depress these companies' assets.²⁰

Conclusions

This paper briefly analyzed the integration processes Latin America, and especially the South Cone, went through. The American continent was incorporated to the European trade capital in the earliest stages of globalization, when a single world economical system started its development. It is here emphasized the period from the 1980's onward, when a new integration begun, based on simultaneous trade and financial liberalization processes and on growing market integration, especially with economic blocks formation. It characterized spatial logics in Latin American, whose analysis usually regard it as a whole and, therefore, usually disregard its particularities, which explain different integration dynamics in different areas in the continent. Differently from other regions, the South Cone's trade and investments links are mainly related to the EU, and since the 1990's the Iberian investments have been predominant. In this perspective, this paper analyzed the investments' selective logic separately, concerning more directly the Spanish Portuguese cases, where the former is almost completely related to Brazil. The relevant points are the follow:

1. The Iberian investments' logic derived from a choice based on the reality of Spanish and Portuguese economies and companies. Benefited from linguistic, historical and cultural affinities, the Iberian investments find more favorable conditions in the South Cone than in any rich country that composes the Triad. The Iberian countries are actually the only Triad component that invests more outside the capitalist organic nucleon than into it.
2. Differently from what may appear, the Iberian investments' rationality is not a Third-World type nor is opposed to the European economy. It is designed to survive, gaining scale in order to exist in the European context.
3. Differently from the United States and from the richest European countries, the Iberian investments did not follow a path open by previous trade and industrial subsidiaries. It was not the case of foreign direct investment with exporting strategy. These investments were directed almost completely to service industries that operate in the domestic market. They were carried on in fusion and acquisition processes, mostly through privatizations auctions.

²⁰ To an analysis on Brazil-Portugal economical relations, see Albuquerque and Romão, 2000. To a non-aggregated analysis on investments and trade balances in the 1990's, see Ramos Silva, 2001 and Ramos Silva, "*Portugal /Brasil uma década de expansão das relações econômicas 1992-2002*". Terramar, 2002

4. Once these Iberian companies operate in services, which are low productive industries, their investments enable an improvement in general productive services. This happened because these industry are not integrated, which is the case of telecommunications, trade, construction, tourism, healthcare, insurance and financial services.
5. The link with domestic market is central in this analysis. That is, it is important to the Iberian investment that the receiving economies grow and that some source of income distribution takes place. These investments do not depend only on some few cheaper resources that make an exporting strategy possible.
6. The latter item helps to explain the Spanish diplomacy's effort to improve its relations with Latin America, which became a priority to Madrid. The creation of the Iberian-American Cupola in 1991 is a sign of this project. It is the only discussion forum in which Latin American countries (including Cuba) meet without the United States. As an external link with high politically importance, the Iberian-American Cupola has also strengthened the Portuguese and Spanish diplomacy in the European context.
7. Portuguese foreign direct investments started in 1995, and therefore is a latecomer if compared to Spanish investments. Besides representing a much smaller dimension if compared to the Spanish case and being restricted to Brazil, Portuguese investments have been articulated in some areas, such as telecommunications.
8. In relation to the South Cone countries, one cannot assert anything about a single tendency and about possible developments. There are several alternatives about the MERCOSUR's political and institutional densities concerning its more strategic objectives, which are explicit inspired in the EU. Concretely, it is an imperfect Trade Union, and the real integration problems (such as macroeconomic policymaking) are yet to be solved. In the same cense, MERCOSUR countries have not been together in negotiations with creditors and in decisions on adjustment policies that have been blocking economic growth. Another important aspect is the necessity of policies on technology, science and foreign trade that could be capable to articulate/internalize the innovative capacity originated by foreign direct investments. If these points are not confronted, one will be watching to a more sophisticated recreation of new subordination and exclusion forms. If this gap is confirmed, the potential economic growth will not imply in sustainable economic and human development.

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